

SPEECH

OF

PHILIP ANGELIDES

Treasurer

State of California

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(Edited remarks)

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Thank you very much for that kind introduction. Right before he stepped off, he said "Good luck," and I wasn't nervous until then.

It is my pleasure to be here today. This is, in many ways, a very good time for our State and our society. It's a time when all the economic numbers that we hear about and read about are good: 3.3 percent job growth year over year in our State; 6 percent plus personal income growth projected here in California.

As was mentioned, our credit rating was upgraded by Standard & Poors, and if you all saw the recent Field Poll here in California, we have a time and a place in which more Californians are feeling buoyant about the economy than they have in decades.

And in many ways, these good numbers -- good economic numbers, good revenue numbers, a balanced budget -- are the items with which a treasurer would love to consume a whole speech, but I want to go beyond that today and talk about some of the things we're doing short term to make sure that my office continues to live up to its responsibilities as a fiscal manager for the State. Beyond those short-term steps, I also want to talk about what I think are some of the larger challenges that we face here in California as public

policy leaders and as people involved in public finance.

I've been blessed since I took office in January to work with a very good professional team. My Deputy Treasurer, Barbara Lloyd and her public finance team, many of whom are here today, have been working side by side with me to do what, as I said, everyone should expect a treasurer to do, which is to focus on how we can improve cost efficiency; how we can protect taxpayers and bond holders to the best extent possible; and how we can look creatively at how we use public finance mechanisms to move us forward.

I think we've had a pretty good eight months at it. As has been noted, we have had a credit rating upgrade. We've been actively engaged in refundings to save the taxpayers' dollars. We've been active in our commercial paper program as the best way to meet our short-term borrowing costs.

Over in the Legislature in the area of cost and efficiency, we've had a good start. I know you all heard from my Republican colleague in the Senate, Jim Brulte, earlier today. He carried the bill that is now on the Governor's desk that will allow us to issue variable rate G.O. debt to expand the marketplace for our buyers.

Assemblyman Dean Florez carried a bill that allows us on the investment side to be in asset-backed commercial paper, and to move to electronic and

facsimile bidding practices.

With respect to protecting taxpayers and bond holders, we've also been active. Assemblyman Steinberg has carried a bill for the Debt and Investment Advisory Commission that will allow us to have the same kind of investment oversight and investment policy-making responsibilities that commission's had with respect to debt in years past.

And I might add that I'm pleased to note today that Supervisor Susan Leal of the City and County of San Francisco is here, and I just appointed Susan to the Debt and Investment Advisory Commission.

So we're looking at being as proactive as we can at CDIAC. As some of you know if you read the Bond Buyer, I'm taking very seriously our responsibilities to protect bond holders and to make sure that all the good things that go on in the public finance marketplaces are protected. When I see roving JPAs that defy the law, and notwithstanding legislative intent, continue to try to burst the envelope of good practices, I'm going to act legislatively and legally to stop them. And I'm proud of the fact that the Attorney General and I did go to court to stop a roving JPA outside the law this year.

We did it to make sure that taxpayers and public policy leaders will never question the legitimate use of public finance to meet the good and important needs of this society.

Finally, we've been active in the short term in trying to increase the number of public finance tools that we have available. Senator Burton carried a bill that will authorize the State to issue Garvee bonds to accelerate use of federal transportation funds. Assemblywoman Carole Migden from San Francisco carried a bill that will allow our school finance authority to issue short-term debt to school districts waiting for their allocations of general obligation bond money so they can start their modernization projects all over this State.

We've had a good year and a good start and I'm grateful for all the good technical help and all the good thoughts we've gotten from people in the public finance realm.

But beyond the day to day and beyond good fiscal management, as Treasurer, I have been also doing what I also think a C.F.O. ought to do for a major institution or for a society -- looking beyond what we need to do today to stay fiscally strong, and looking beyond the good numbers we're presented with the economy -- and asking: what are the steps that we need to take so that we can stay strong in the long term? And clearly, public investment policy is a critical determinant in a society's long-term economic health.

We're in a State that over the next 20 years is going to grow by twelve million people, five million new

jobs, four million new households and two million kids entering our school system. We need to be thinking long, hard and deep about what are the investment policies that will drive the State of California, so in the 21st century we can be economically strong and have the best possible credit in the marketplace.

As we face this enormous growth challenge, two public policy challenges stand out to me with which we must grapple. The first challenge is: how do we grow in California so that we maintain the very unique environmental qualities and quality of life that have defined this State and have been such a big part of making it economically successful?

The Center for the Continuing Study of the California Economy notes that "a high quality of life is increasingly a determinant in attracting entrepreneurs and workers in global industries. Failure to protect the natural attractiveness of California can therefore hurt the State's future prosperity."

And I'm deeply concerned as a public leader that we are not growing in ways that will sustain us in the years ahead. In fact, unless we act now, we will be environmentally degraded, and therefore, economically degraded.

By 1995, Californians were spending 300,000 hours per day sitting on congested urban highways, a tremendous loss of economic productivity, and a

contributor to the fact that we've got 8 of the 15 worst air-quality basins in the country.

And if you look at the results of our growth patterns, you also see a disturbing trend in the housing field. We've now got 13 of the 25 least affordable housing markets in this State. We have a jobs creation ratio to housing creation ratio in this State, since 1995, of five to one. And I might add, in the Bay Area, it's been nine to one. It's no surprise that the Silicon Valley median home price now exceeds \$400,000, and no surprise that in a recent poll of Bay Area business leaders, 90 percent rated the housing supply and affordability problem as a 8, 9 or 10 on the scale of 10.

But I don't believe that we need to succumb or accept the fact that we will become degraded over time.

I believe that we can embrace a set of public policies and public investment policies that deal with this matter.

The second challenge that I see is: how do we maintain California's economic success in the 21st century without becoming two Californias? Because in the end, the economic and social success of our society will be elusive if we are two societies, with most of the State doing well and economically buoyant, with pockets of poverty, decline and devastation in our midst.

I started out with the Treasurer's dream -- the recitation of the good numbers. And they are good. Lowest unemployment rate now in nine years. But it's not true in East Palo Alto, and it's not true in Richmond. It's not true in Lynwood, Compton, and Bell in the L.A. area, and it's certainly not true up and down the San Joaquin Valley where double-digit unemployment has persisted throughout the 1990s.

I am deeply concerned that despite all our successes, our State, my State, has the fourth greatest gap between rich and poor of all but four states in the nation; the number of Californians living below the poverty line increased by 28 percent in the first half of this decade; and one in five of our kids is in poverty today. And unfortunately, our land-use patterns and policies, how and where we live, reflect this gap in terms of the separation of two Californias.

You can look anywhere in the State and see it. In my home county of Sacramento, the poverty rate in older, urbanized Sacramento County is twice what it is in the boom county of Placer to the north, and that gap widened by 50 percent in the first half of the 1990s.

A recent study here in the Bay Area by a group called The Urban Habitat took a look at indicators of poverty, and one of the key indicators is how many kids are in free or reduced meal programs. In 200 plus schools in the inner cities and the older suburbs of the

Bay Area, only nine of those schools had less than ten percent of their kids in free or reduced meal programs.

In the outer ring, they looked at 29 school districts in the most successful, thriving suburbs and found that only three and a half percent of the kids in those locales were in those programs.

So we have become in many ways two Californias, and that will be a challenge to our long-term economic health.

And so I believe deeply that now is the time, on the cusp of this great challenge, to look at how we can fashion investment policies -- because that's my realm as Treasurer -- that best meet these challenges of preserving the quality of life and environment of California, and making sure that we are a state which defines its economic success by equality of opportunity in the years ahead.

It's in that context that I came forward with the Debt Affordability Report that we put out in June. A report we called Smart Investments.

I know and believe we did an excellent job with the numbers. We did the best calibration we could, and I believe the best calibration done to date about what our debt capacity is.

But we went the next step. We entered into a discussion, not just about how much money we have

available in the years ahead, but how do we spend the tens of billions of dollars in infrastructure investment so that we guide this State in the years ahead to a better result economically and socially.

I might add that I believe deeply that the principles we articulated in Smart Investments are applicable at the regional level and the local level as public leaders and our partners in the private realm work with us to try to fashion a new investment dynamic.

Let me briefly touch on the main points of the report and talk about a couple of things that we're now doing in the Treasurer's office to bring these policies to reality.

The first finding we made in our report is that we have significant debt capacity. We can borrow between \$32 and \$58 billion in the next decade in this State, depending on whether we commit the present ratio of 4.17 percent of debt to general fund, or whether we choose to move up to a ratio of 6 percent.

We also note in the report that, beyond our ability to borrow in terms of debt, we have \$35 billion earmarked for infrastructure investment from non-debt resources.

So we start this debate, this decision about how we invest in a public fabric for California, with the knowledge that we have between \$68 to \$94 billion to invest for infrastructure in the years ahead.

What has disturbed me since I took office in January is that so much of the debate has been about whether we need \$70, \$80 or \$90 billion, and not enough of it has been around where do we spend that money to contribute to the economic and environmental goals that I articulated earlier.

In that vein, I believe deeply that state investment policy across the board -- whether it is infrastructure investment, tax credits for housing, or private purpose tax exempt debt that we allocate at the Debt Limit Allocation Committee -- we must direct public resources coincident with our policy goals. That's why, in our report, we call for a new direction at the state level to place more emphasis on infrastructure that, in the long term, will support sustainable development patterns; that will make sure that California stays economically and environmentally strong.

What this means is our infrastructure investments must be tied to more sustainable development at the urban fringe, and that more of our infrastructure investment dollars must be redirected into the somewhat tattered fabric of the California communities that we've all too often left behind in 25-year cycles.

And since I'm using the term "sustainable development," let me give you a picture from someone who was in the private realm in real estate for 15 years and is now in the public realm about what I mean.

Sustainable development for California's future to me means land uses that can support more transportation options than just more freeways or roads. It means a better mix of housing in our communities and neighborhoods. It means locating jobs near housing, and on a community and regional basis, balancing job growth with housing growth. And yes, this does mean more respectful environmental practices in growth and higher density, well-planned use of land.

Let me give you an example of a couple of the ways we're trying to convert investment policy as a supporting phenomenon to sustainable development. I chair, as Treasurer, the Tax Credit Allocation Committee that each year allocates \$450 million in federal and state tax credits for affordable housing. My predecessor awarded the money by lottery. I knew we could do better. We adopted a point system that gives points to projects that are located near transit, within walking distance of schools, and within walking distance of shopping.

We gave points for projects located in lower income communities where the housing was part of a comprehensive effort to lift up that community.

We tried to mesh how we spent that money with housing projects that could support good growth patterns in the years ahead.

And recently, at the California Public Employees

Retirement System, at my urging, we decided to invest \$100 million in equity with a group called Infill Investment Partners, that will develop real estate projects -- mixed use, single-family ownership, retail, office -- in the urban fabric of Southern California. And so we must tie investment policy to our growth patterns.

The second main finding in our report is that we must direct investment back into those communities which are struggling hardest, for whom the public capital represented by tax exempt debt can make a difference in their economic future.

I talked about it earlier, but let me just quote briefly from the report: "A two-tiered California poses a number of threats to long-term economic success. Educational failure will damage the quality of our work force. Poverty will increase the fiscal burden on state and local government. Fears for public safety will negatively affect private investment decisions. And most importantly, the very essence of the California dream -- equality of opportunity -- will be lost."

And that's why, again, we're trying to mesh investment policy with community reinvestment. I proudly sit as one of the three board members of the California Infrastructure Economic Development Bank, and the Governor, to his credit, proposed \$475 million to capitalize the bank and the Legislature has approved

those appropriations.

We are now going to be considering how we apply those resources. I believe, again, we should target communities of high unemployment and high poverty, those communities that most need the infusion of public capital, and we should be doing so in support of projects that meet our sustainability goals.

And we're trying to look at the investment tools in our own offices to see how we can support this goal. I'm proud that we recently announced that we'll be buying a billion dollars of home loans made to California home buyers under the Community Reinvestment Act -- loans made to Californians whose income is 80 percent of the median or below, or in neighborhoods where the income is 80 percent of the median or below. We will be buying those billion dollars of mortgages to return more capital to California lenders to create more homeownership opportunities. And we did so with a 5.7 percent yield against a portfolio yield all together of 5.2 percent. And we did so with the backing of Freddie Mac.

Beyond what we can do at the state level in terms of redirecting infrastructure investment and looking at all the tools we have, from the Debt Limit Allocation Committee to CalPERS and CalSTRS -- our State Teachers Retirement System -- this must be a partnership between the State, regions and local governments. That's why I

believe deeply that as we embark on a new investment dynamic at the state level, we must couple it with a much stronger commitment to regional planning here in California. Almost every one of the issues I articulated earlier -- from affordable housing to environmental quality to transportation systems to move people and goods -- transcends city and county boundaries.

I believe that as we move forward and as we adopt a new state investment dynamic -- and I will tell you that that will become hopefully a better process because for the first time ever, the Governor has on his desk a bill that would institute a five-year capital outlay planning process at the state level -- we must link state infrastructure investment to credible and strong regional plans.

What's been remarkable to me is the extent to which the public sector has lagged behind progressive civic and business leadership on this score. If you look all over this State, you see groups like Silicon Valley Joint Venture, the Bay Area Council, the Great Valley Center in the San Joaquin Valley, who all realize that growing intelligently on a regional basis is fundamental to our economic success.

So I'm going to work very hard in next year's Legislature to build on the capital outlay budgeting process that was enacted this year and go the next step

working to put in place a state process that ties infrastructure investment to smart regional planning that will ensure California's economic future.

While we do our best to change directions at the state level and empower regions to deal with their problems, we must also recognize that the State can't do it all. It's such a large and complex and diverse state that, if we're serious about the notion that public investment can be a player in long-term economic viability, it's time in California, to lead the voters into a debate about whether we ought to have majority vote in this State. I believe deeply that the time is here to empower local communities to make their own decisions by majority vote about whether they want to improve their schools, improve their parks and undertake those other critical community projects that will sustain them into the 21st century.

This is particularly important, I might add, for the very communities I spoke about earlier. The growth communities of the urban fringe have a range of revenue options, as you know, not available to our older inner cities and our first ring suburbs.

It is their best hope to be able to stabilize themselves into the 21st century and mesh public investment with economic vitality. That's why I am going to work very hard for the "Fix Our Schools" initiative, which will be on the March ballot, which

will enact local majority vote for school construction and repair.

We looked at the results of the November 1998 election through our Debt and Investment Advisory Commission and we found that had majority vote been in place last November, 98 percent of the local measures for education would have passed.

Stunningly, 27 measures failed, but got more than 60 percent of the vote. And as someone who got 53 percent of the vote, and it took many years to get it, I'll just tell you I was damn glad to get a majority.

We're on the verge of a very exciting era in California. An era in which hopefully the State will play a productive role in investing in our future -- an era in which we hopefully will give to regions and localities the ability to do the same -- an era in which I want to call on you in the private sector, as this morning I called on the C.E.O.s of California's insurance companies, to think thoughtfully and to work hard to invest public and private capital in ways that ensure we're successful into the 21st century.

We can be a model in the 21st century, a model of economic success, if we commit ourselves now and work hard as partners to invest in ways to keep California environmentally strong and invest in ways to provide equality of economic opportunity across all communities in California.

This is a wonderful job. I know we can do a lot.
I look forward to working with each and every one of you
to move the incredible power of American capital to do
good here in California.

Thank you very, very much for having me.